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ABSTRACT

This paper provides a national perspective on special education finance and related reform issues and proposals, with emphasis on those of particular relevance for the state of New York. It also looks specifically at the current New York funding system as it pertains to students with disabilities and concludes with several observations. First, the proposed state reforms relating to a funding system based on a count of all students, rather than just special education students, and using the proposed poverty adjustment, appears to support many of New York's reform goals. Second, the decision to maintain separate funding systems for special education students with excessively high costs in public schools or those with disabilities requiring summer programs or educated in approved private special education schools, seems likely to conflict with the states' reform goals of ensuring that students with disabilities are educated with their nondisabled peers to the greatest extent possible. Lastly, while the proposed fiscal reforms may foster a more supportive environment for higher learning standards, strategies for ensuring that students with disabilities are fully included in the state's system of accountability will need to be carefully devised and implemented if significant gains are to be realized. (Contains 33 references.) (CR)

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ED 424 719

Restructuring Special Education Funding in New York To Promote the Objective of High Learning Standards for All Students

Thomas B. Parrish, Ed.D.

September 1998

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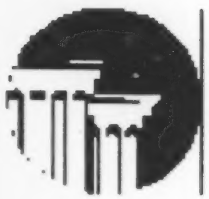

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Table of Contents

Acknowledgments ..... *i*

Table of Contents ..... *iii*

I. Introduction 1

II. National Context 3

How Much Do We Spend and Where Does the Money Come From? .. 4

The Federal Funding System 5

State Funding Systems 5

What Issues are Driving Reform of Special Education Funding Across the Nation? 8

Flexibility in Placement and Use 8

Rising Special Education Costs and Enrollments 9

Concerns Over the Efficiency of Special Education Services ... 9

High Cost of Special Education Assessment and Program Administration 11

Strict Categorical Nature of Special Education Services 11

Fiscal Policies that Work at Cross Purposes with Special Education Inclusion Policies 12
Summary of National Reform Issues 12
State and Federal Reform Initiatives 13
Census-based Funding 13
Adjusting Special Education Funding Based on Student Poverty 17
Removing Fiscal Incentives for Restrictive Placements 21
Change in the Federal Incidental Benefit Rule 22
Blended Funding and Service Provision 22
Looking to the Future From a National Perspective 23

III. Special Education Funding in New York 25

The Current System 26
Special Education Funding 26
Special Education Funding for Students with Severe Disabilities 28
Other Features of the Current State Funding System 30
High Learning Standards for Students with Disabilities 31
The Proposed System 32
Special Education Reform Goals 32
Special Education Finance Reform Strategies 34
Alignment of Proposed Funding Provisions and Reform Goals 35
Gaps in Alignment 36
The Need to Remove Fiscal Incentives for Restrictive Placements 37
Accountability for Results for All Students with Disabilities ... 38

IV. Conclusion 45

References 47

Tables

Table 1. State Special Education Funding Systems & Reform, 1994–95 . 10

Table 1 Key 11

I. Introduction

This paper includes two major sections. The first provides a national perspective on special education finance and related reform issues and proposals, with emphasis on those of particular relevance for the state of New York. The second section looks specifically at the current New York funding system as it pertains to students with disabilities and to promoting high learning standards for all students. New York has been considering special education finance reform for some time.

The paper concludes with several observations. First, the proposed state reforms relating to a funding system based on a count of all students — rather than just special education students — and using the proposed poverty adjustment, appears to support many of New York's reform goals. These proposals are also in alignment with national special education reform trends at the federal level and in an increasing number of the states. Second, the decision to maintain separate funding systems for special education students "with excessively high costs in public schools, with disabilities requiring summer programs, and with disabilities educated in approved private special education schools" seems likely to conflict with the state's reform goal of ensuring that students with disabilities are educated with their nondisabled peers to the greatest extent possible. Last, realization of the goal of high learning standards for students with disabilities cannot be expected to simply flow from these fiscal reforms. This objective is likely to be much more difficult to obtain. While the proposed fiscal reforms may foster a more supportive environment for high learning standards, strategies for ensuring that students with

disabilities are fully included in the state's system of accountability for all students, thereby benefitting from these high standards, will need to be carefully devised and rigorously implemented if significant gains are to be realized.

II. National Context

With the passage of the *Education for All Handicapped Children Act* (P.L. 94-142) in 1975 — now called the *Individuals with Disabilities Act* or IDEA — programs and related services for students with disabilities have become a major component of public education in the United States. What was previously a patchwork of programs for students with disabilities transformed into a truly national system of services. However, although the federal government has provided, and continues to provide, important leadership in the formulation and interpretation of a national system of special education law, in terms of financial support it remains a junior partner to state and local levels of government.

Lately, there has been a lot of interest in issues related to special education finance. Feature articles have appeared in national publications including *U.S. News and World Report*, *The New York Times*, and *The Wall Street Journal*. A segment on this topic was featured in a recent edition of television's *60 Minutes*.

There are several reasons for these high levels of interest. First is the estimated national annual expenditure of $32 billion on special education programs and services. Second, and perhaps more important than the absolute magnitude of this expenditure, is the growing number of questions about whether these costs are

rising too rapidly and are encroaching upon the resources of the entire public education enterprise.

At the same time, according to this year's *Phi Delta Kappa/Gallup Poll of the Public's Attitudes Toward the Public Schools*, 47 percent of adults said that the United States is spending too little of its total education budget on students with special needs (such as physical and mental disabilities), while 41 percent said that about the right amount is being spent. Only 5 percent said that too much is being spent (Elam, Rose, and Gallup, 1996).

How Much Do We Spend and Where Does the Money Come From?

While expenditures for special education services in the United States are known to be considerable — one estimate is $31.8 billion[1] — exact current expenditures are unknown. This is because the states were last required to report these amounts for the 1987–88 school year and the last independent national special education cost study, completed in 1988, was based on data from the 1985–86 school year.

Data from this study showed that, on average, expenditures for students receiving special education services were 2.3 times greater than general education students.

[1] This estimate is based on a projection of $265 billion in current expenditures for K–12 public education for the 1995–96 school year (Gerald and Hussar, 1995) and a 12 percent allocation to special education programs (Moore et al., 1988).

■ The Federal Funding System

Federal funding under IDEA has been based on each state's count of children with disabilities who are receiving special education services. No distinction is made for variations in the types of disabilities or patterns of placement of special education children across the states.

However, through the last reauthorization of IDEA, federal special education funding will begin a slow transition to the type of census-based funding system being proposed for New York. The number of school-age children who may be counted for federal funding purposes is limited to 12 percent of the general school-age population. However, a state must provide special education programs and services to all eligible children with disabilities.

■ State Funding Systems

The major responsibility for education in the United States lies with the states. All 50 states have special provisions in their funding formulas that acknowledge the excess costs of special education. State special education funding formulas vary from reimbursing a fixed percentage of actual special education expenditures (11 states), to pupil weighting systems (19 states) in which special education students generate a fixed multiple of the general education pupil allocation (e.g., twice as much as is allocated to a general education students), to systems that directly fund specified numbers of special education teachers (10 states), to fixed dollar grants per student (10 states). Each is briefly described below.

Special Education Funding Based on Percent Reimbursement

Under a percent reimbursement system, the amount of state special education aid a district receives is directly based on its expenditure for this program. Districts may be reimbursed for 100 percent of their program expenditures or for some lesser percentage. Usually there is some basis for determining what costs are allowable, and which are not, under such a system. As with all special education funding systems, there may be overall caps on the number of students any individual district can claim for funding purposes, for example, the district cannot exceed some specified percentage of the statewide average claim per student.

Special Education Funding Based on a Pupil Weighting System

Under a weighted special education funding system, of which the current system in New York is an example, state special education aid is allocated on a per student basis. The amount of aid is based on the funding weight associated with each student. For example, in Oregon a single funding weight of 2.0 is applied to all eligible special education students in the state. This means that the amount of state aid for every special education student in a district is twice that received for a general education student in that district. However, most weighting systems differentiate among special education students with those expected to be at a higher cost to serve receiving a larger weight — and therefore more state aid — than those expected to be served at a lower cost. These weight differentials are based on expected costs because they may not hold true for any one student. However, categories of students with higher funding weights are those who are expected to be, on average, higher cost to serve. Funding weights are differentiated

on the basis of placement (as in New York's current system, which will be described in more detail in an upcoming section), disability category (as in Georgia), or some combination of the two (as in New Jersey).

Special Education Funding Based on Number of Teachers

Special education funding systems that are based on specific resources generally allocate units of funding based on some determination of the number of staff needed to serve the district's population of special education students. For example, in the case of Missouri, allocations are awarded based on an approved number of teachers, professional staff members other than classroom teachers, and aides.

Special Education Funding Based on a Fixed Dollar Grant per Student

Federal IDEA funding is based on a fixed grant, or fixed amount, per special education student up to a limit of 12 percent of a state's school-age population. Some states also have such a flat grant funding system. For example, in North Carolina the total state funding available for special education is divided by the special education count for the state to determine the amount of state aid to be received by districts per special education student. A newer variation to this approach to special education funding is based on the total number of students in a district, rather than the number of special education students. This is known as a census-based approach, which, as an important basis for the reform proposals in New York, will be discussed at greater length later in this paper.

All of these systems primarily provide funds for the provision of special education services and for the most part are more alike than different. Beyond the state and federal shares of support, the remaining funding for special education programs comes from local district funds (Moore et al., 1988).

What Issues are Driving Reform of Special Education Funding Across the Nation?

A recent survey[2] of the states regarding special education finance revealed that 17 states have implemented some type of finance reform in the past 5 years (4 of these states are again considering reform). Twenty-six states are currently considering major changes in their special education funding policies. Table 1 summarizes the finance reform movement by state. Major issues driving these reforms and responses from selected states follow.

■ Flexibility in Placement and Use

The degree of flexibility can be affected by the type of funding formula used (column 2) and the basis utilized for allocating funds (column 3). For example, allocations based on type of student placement (e.g., special day class) limit the placement of special education students.

[2] Survey done by the Center for Special Education Finance (CSEF), at the American Institutes for Research, Palo Alto, CA.

Another important provision relating to flexibility in the use of state special education funds is whether these funds must be spent only on special education students (column 4). These policies can provide more fiscal accountability, but they also reduce local control over program design. Interestingly, while this type of restriction is often presumed to exist, 27 states report that their policies do not require that all special education funds be spent exclusively on special education services.

■ Rising Special Education Costs and Enrollments

Many, but not all, states are concerned about rising costs and enrollments. Pennsylvania, for example, specifically designed its reform to meet these, as well as other, policy objectives. The two primary objectives of reform were stabilizing special education costs and enrollment, and affecting practice.

■ Concerns Over the Efficiency of Special Education Services

Studies have shown that only about 62 percent of the special education dollar is being used to provide direct services to students. As a result, questions are being raised about whether too much is being spent on such support activities as program administration. The Oregon reform represents one state's attempt to cut through some of the program's paperwork requirements, thereby raising program efficiency.

Table 1. State Special Education Funding Systems and Reform, 1994–95

State	Current Funding Formula	Basis of Allocation	State Special Ed $ for Target Population Only	Implemented Reform Within Last 5 Years	Considering Major Reform
Alabama	Flat Grant	Special Ed. Enrollment	✔	✔	✔
Alaska	Pupil Weights	Type of Placement			✔
Arizona[1]	Pupil Weights	Disabling Condition			✔
Arkansas	Pupil Weights	Type of Placement	✔		✔
California	Flat Grant	Total District Enrollment	✔	✔	
Colorado	Flat Grant	Special Ed. Enrollment	✔	✔	
Connecticut	% Reimbursement	Actual Expenditures			✔
Delaware	Resource-Based	Classroom Unit	✔		✔
Florida	Pupil Weights	Disabling Condition			✔
Georgia	Pupil Weights	Disabling Condition	For 90% of funds		✔
Hawaii	Pupil Weights	Placement and Condition			
Idaho	% Reimbursement	Actual Expenditures	✔	✔	
Illinois	Resource-Based	Allowable Costs		✔	✔
Indiana	Pupil Weights	Disabling Condition			✔
Iowa	Pupil Weights	Type of Placement			✔
Kansas	Resource-Based	No. of Special Ed. Staff	✔		
Kentucky	Pupil Weights	Disabling Condition		✔	
Louisiana	% Reimbursement	Actual Expenditures	✔	✔	✔
Maine	% Reimbursement	Allowable Costs	✔		✔
Maryland	Flat Grant	Special Ed. Enrollment			✔
Massachusetts	Flat Grant	Total District Enrollment		✔	
Michigan	% Reimbursement	Allowable Costs	✔		✔
Minnesota	% Reimbursement	Actual Expenditures	✔		✔
Mississippi	Resource-Based	No. of Special Ed. Staff	✔		
Missouri	Resource-Based	No. of Special Ed. Staff	✔	✔	✔
Montana	Flat Grant	Total District Enrollment		✔	
Nebraska	% Reimbursement	Allowable Costs	✔		✔
Nevada	Resource-Based	Classroom Unit	✔		
New Hampshire	Pupil Weights	Type of Placement			✔
New Jersey	Pupil Weights	Placement and Condition			
New Mexico	Pupil Weights	Services Received			✔
New York	Pupil Weights	Type of Placement	✔		✔
North Carolina	Flat Grant	Special Ed. Enrollment	✔		✔
North Dakota	Flat Grant	Total District Enrollment		✔	
Ohio	Resource-Based	Classroom Unit			✔
Oklahoma	Pupil Weights	Disabling Condition			
Oregon	Pupil Weights	Special Ed. Enrollment		✔	
Pennsylvania	Flat Grant	Total District Enrollment		✔	
Rhode Island	% Reimbursement	Actual Expenditures			✔
South Carolina	Pupil Weights	Disabling Condition	For 85% of funds		
South Dakota	% Reimbursement	Allowable Costs	✔		✔
Tennessee	Resource-Based	Classroom Unit			✔
Texas	Pupil Weights	Type of Placement	✔	✔	
Utah[2]	Pupil Weights	Type of Placement	✔	✔	
Vermont[3]	Flat Grant	Total District Enrollment		✔	
Virginia	Resource-Based	Classroom Unit			
Washington	Pupil Weights	Special Ed. Enrollment	✔	✔	
West Virginia	Flat Grant	Special Ed. Enrollment	✔		
Wisconsin	% Reimbursement	Allowable Costs	✔		
Wyoming	% Reimbursement	Actual Expenditures			✔

Table Key

Pupil Weights: Funding allocated on a per student basis, with the amount(s) based on a multiple of regular education aid.
Resource-based: Funding based on allocation of specific education resources (e.g., teachers or classroom units). Classroom units are derived from prescribed staff/student ratios by disabling condition or type of placement.
% Reimbursement: Funding based on a percentage of allowable or actual expenditures.
Flat Grant: A fixed funding amount per student or per unit.

[1]Formula also contains a substantial flat grant allocation for selected disabling conditions.
[2]Formula amounts are now frozen and are based on allocations in prior years.
[3]Vermont's special education funding formula also contains a substantial percent reimbursement component.

■ High Cost of Special Education Assessment and Program Administration

The average special education assessment costs $1,206 per student (an estimated $1,648 in 1995–96 dollars), as reported by Moore et al. It is used primarily to determine whether a student does or does not qualify for special education services. After a student is placed in special education, teachers often report that their first activity is to reassess the student to determine their instructional needs because expensive eligibility assessments are not useful for this purpose. This raises questions about the usefulness of such assessments for students who are determined to be not eligible for special education services as well as for many students who are deemed eligible.

■ Strict Categorical Nature of Special Education Services

Categorical funding refers to dollars allocated for a specific purpose that generally have strict limitations on how they can be used. An important issue in special education finance is how strictly categorical these dollars should remain. For

example, as noted by a former Director of Special Education in Florida, "When over one-half of our students qualify for at least one type of special, categorical program, it is no longer clear that it makes sense to refer to them as special."[3]

■ Fiscal Policies that Work at Cross Purposes with Special Education Inclusion Policies

Many states are now determining whether their special education funding systems contain disincentives to inclusionary practices. While funding policy should be designed to foster the state's programmatic priorities, the reality is often the opposite. The National Association of State Boards of Education released a strong policy statement, *Winners All: A Call for Inclusive Schools*. It advocates a shift in education policy to foster the development of well integrated services for all students. It argues that the linkages between funding, placement, and disability labels, which have traditionally provided the foundation for special education funding, must be broken.

■ Summary of National Reform Issues

Common themes that appear to be driving special education finance reforms nationally are concerns over rising costs, the efficient use of resources, and the relationship between fiscal and program policy. All of these factors, as well as the

[3] Address given to Florida Futures Conference held in Tampa, FL, September 16–17, 1994. Note that this reference to special, categorical programs extends beyond special education to include such programs as compensatory (poverty), limited-English proficient, and gifted education.

other issues described above, have led some states and the federal government to consider new approaches to allocating special education funds.

State and Federal Reform Initiatives

In response to the concerns outlined above, state and federal policymakers have been forging new reform initiatives. Some of these provisions are described below.

■ Census-based Funding

One of the predominant themes in special education finance reform found at the federal level and throughout the states over the past 5 to 10 years is census-based funding. It is the new basis for federal IDEA funding, and it has been adopted in various forms by the states of Vermont, Pennsylvania, Massachusetts, California, Montana, and North Dakota. An understanding of census-based funding is critical to this paper because it constitutes a fundamental component of proposed reforms for New York.

Census-based finance systems are based on total enrollment rather than on special education counts. For example, under a state-level census-based funding system, districts with identical student enrollments receive the same special education aid regardless of the number of students placed in the program, the disabilities of these students, where they are placed, or how they are served.

The rationale for adopting such a system is that the prior, more traditional funding mechanisms may provide fiscal incentives for identifying more students and for

designating them in higher reimbursement categories of disability or in higher cost placements. Census-based approaches are often thought to be free of such incentives. However, in reality, incentive-free systems do not exist. For example, while a census-based system may remove incentives for identifying more students for special education and for assigning them to high cost placements, it can be argued that they create new incentives to not identify students for special education and to use lower cost placements. Accordingly, census-based systems have not escaped the controversy that lately appears to be associated with nearly all special education financing alternatives. Some of the pros and cons associated with census-based systems follow.

Arguments Supporting Census-based Funding

- Working outside special education is less costly. The special education assessment and referral process is costly, and studies show that in many cases the tests and methods for classifying students provide little information useful in planning instructional programs for these students (Ysseldyke et al., 1982).

- Some students may be better served outside special education. Special education programs, as traditionally designed, tend to isolate students in more segregated placements (e.g., pull-out programs or special classes). Labeling students tends to stigmatize them for the remainder of their schooling experiences, and perhaps throughout their lives. Once students are placed in special education, they tend to stay in the program (Shields et al., 1989).

- Overidentification is now the major issue. Before the passage of P.L. 94-142, large segments of the special education population were being underidentified and/or underserved. Now, however, many states are reporting that over rather than under identification is their major concern.[4]

- Procedural safeguards would remain in place. Movement to a census-based funding system would not jeopardize any of the procedural safeguards under current law. In addition, all students with disabilities would be protected under Section 504 of the *Americans with Disabilities Act* whether they are labeled as special education or not.

Arguments Against Census-based Funding

- The system would not be equitable to states and districts with higher identification rates. A census-based funding system assumes comparable prevalence rates of special education students. States and districts might exhibit higher percentages of special education students because of real differences in the characteristics of students (Verstegen, 1991). Even where student populations are

[4] This contention is supported by an overall 29.9 percent increase in the number of children served in IDEA, Part B, and Chapter 1 Handicapped programs since the inception of Part B in 1976 through the 1990-91 school year. The 1990-91 school year showed an increase of 2.8 percent, which is the largest increase in a decade. However, the larger increase in this year is primarily due to the additional availability of early childhood programs.

comparable, states and districts may have been especially proactive in setting up programs for special needs students and census-based funding systems penalize those very districts that have been most responsive to the state and federal call to identify and serve all special education students.

- Procedural safeguards cannot be maintained if students are not identified as having special needs. Census-based funding would create fiscal incentives to underidentify students with disabilities, abridging their right to a free and appropriate education.

- Fiscal accountability would be jeopardized. Because funds would not be earmarked for the exclusive use of disabled students, a census-based funding system reduces assurances of fiscal accountability at a time when such controls are seen as increasingly important by taxpayers.

- Current levels of special education funding would be threatened. Traditional levels of support for special education services would likely diminish when they can no longer be attributed to specific special education students with legal entitlement.

Summary of Census-based Analysis

In reviewing these arguments, it is important to note that they are meant to reflect sentiments often expressed in discussions of the potential merits and demerits of such a system. As such, they do not necessarily reflect the opinion of this author,

nor are they necessarily based on fact. Where research is available to support these assertions, citations have been provided.

A full understanding of some of the arguments in favor of, and in opposition to, a census-based funding approach for special education is necessary because it is an issue nationally, and forms an important basis for reform proposals in New York. From a national perspective, in addition to the states that have adopted this approach, the federal Amendments to IDEA, signed into law in June 1997 contained provisions for a gradual conversion to census-based funding.

■ Adjusting Special Education Funding Based on Student Poverty

In addition to the adoption of a census-based approach, the reauthorized IDEA contains a second important new provision in relation to federal special education funding. Under the new system, federal funding will be adjusted upward in accordance with the percentage of students in poverty in a state. In this way, poverty is used as an alternative to the percentage of students identified for service as an indicator of variation in the need for special education services across the states.

Based on data from CSEF, only three states — Connecticut, Louisiana, and Oregon — currently have some form of poverty adjustment in place within their special education funding formula. However, interest in such an adjustment is receiving added attention across the states with the increased focus on census type funding systems and with the federal inclusion of this type of adjustment. With a poverty adjustment in place, a funding amount is generally determined based on whatever general formula is being used and then these allocations are further

adjusted based on a poverty factor. Such a factor could take varying forms, but the basic idea is that districts or states with higher percentages of students in poverty receive more special education funds..

As described above, poverty is the adjustment selected for federal Part B funding and that is currently used in one form or another by three states. Poverty variations are also an accepted basis for adjusting special education aid allocations in Great Britain. What are some of the pros and cons most commonly cited for this approach?

Arguments in Favor of Special Education Poverty Adjustments

- Substantial evidence suggests that sustained and intensive poverty results in conditions (e.g., poor health and nutritional care, as well as high levels of drug and alcohol abuse for expectant mothers) that lead to larger proportions of the school-age population needing special education services.

- Although differences in poverty may be an imperfect measure of variations in a district's true need in relation to special education services, it may be the best measure beyond a district's control that is available.

- Although the relationship between student poverty and the need for special education services may be somewhat tenuous, districts with high numbers of students in poverty do need more

educational services, and increasing their special education funding is one way to provide it.

- Based on parental reports of disability, prevalence rates climb as personal income declines.

- Other education poverty programs such as federal Title I and state compensatory education would be brought into better alignment with IDEA, appealing to policymakers who call for more integrated approaches across all categorical programs.

Arguments Opposed to Special Education Poverty Adjustments

- A special education poverty adjustment brings into question the most appropriate relationship between special education and poverty driven programs such as state compensatory education and the federal Title I program, potentially confusing the unique roles of these programs.

- Data show that minority students, who are more likely to be in poverty, are disproportionately placed in special education. It has been argued that this disproportion is due to the placement of some of these students on the basis of cultural differences rather than disability. Increasing special education funding to high poverty districts may expand these inappropriate placement practices for minority students.

- The inclusion of a poverty factor for special education may accelerate calls for merging this program with Title I or state compensatory education programs into single block grants to the states or to school districts. Many special educators and parents perceive such a move as a threat to special education.

- The relationship between special education and poverty is unclear. For example, no statistical relationship between the percentage of students in poverty and those in special education is found.

- Current and accurate measures of student poverty at the district level are generally not available across the states. The best national measures are based on census data which are collected every 10 years. Free and reduced lunch counts constitute an alternative, but it is sometimes argued that these data are insufficiently accurate for such purposes.

Summary of Poverty Adjustment Analysis

Arguments for and against a poverty adjustment to special education funding present opposite sides of similar themes. For example, while parental reports of disability diminish as family income rises, no relationship between the percentage of students in poverty and those in special education is observed. Some will argue that the first measure showing a positive relationship between disability prevalence and poverty is weak because it is based on parental reports, while others argue that the latter relationship showing no relationship between special education and poverty is not strong because it is based on special education identification rather

than prevalence rates. Similarly, while some perceive closer ties between education disability and poverty programs as leading to more coherent education policy, others argue that any attempt to remove the distinctions between these two programs places future special education funding in jeopardy.

■ Removing Fiscal Incentives for Restrictive Placements

A third important issue at the federal and state levels relates to state funding mechanisms that contain incentives for serving special education students in more restrictive settings, which is counter to the least restrictive environment (LRE) provisions of IDEA. For example, some state formulas allow for generous reimbursement to school districts when students are placed in private or regional public settings. However, these formulas do not offer comparable assistance for the establishment of programs in neighborhood schools. In other words, these dollars are not always able to follow students into the less restrictive settings that may be better suited to their education needs. Other states may offer alternative funding levels for placement in specialized settings, but do not include the general education classroom as a placement option. These types of provisions create a disincentive for placing special education students in the least restrictive environment.

The Office of Special Education Programs has initiated challenges to states with such restrictive funding provisions through its monitoring system. New York was the recipient of one of these challenges. In addition, the reauthorized IDEA requires states to demonstrate that if the state special education funding formula distributes assistance to localities based on the type of setting in which a child is served, the state has policies and procedures to assure that these funding

provisions do not result in placements that violate the requirement that children with disabilities be served in the LRE. If such policies are not in place, the state must provide the Secretary with an assurance that it will revise the funding mechanism to ensure that it does not result in restrictive placements.

■ Change in the Federal Incidental Benefit Rule

This change in the reauthorized federal law, relating to the concept of fiscal accountability, also has implications for the placement of special education students in general education classrooms. The prior incidental benefit rule required schools to keep track of how much time special educators spent in regular classes to ensure that IDEA-funded teachers did not provide services to nondisabled students. Through the reauthorized law, special educators are permitted to provide incidental benefits to nondisabled students when serving disabled students according to their Individualized Education Programs (IEPs). The previous rule tended to provide a disincentive for serving students with and without disabilities together in general classroom settings, as would be expected in a truly integrated setting.

■ Blended Funding and Service Provision

A critical question that confronts the development of future fiscal policy in special education is whether funding should retain its purely categorical nature. There is a natural tension between separate, highly categorical funding streams and overall education reform objectives favoring more unified schooling systems (McLaughlin and Warren, 1992). In such systems, the strict barriers between categorical

programs begin to disappear and are replaced by a more seamless set of educational programs and services designed to meet the special needs of all students.

Looking to the Future From a National Perspective

The special education population has consistently grown at a faster rate than the general education population. Combine this with the prediction that the general education population will grow by over 10 percent during the next 10 years, and the estimate that special education expenditures per student have been growing at a faster rate than general education expenditures, and it is not hard to imagine considerable strain on special education budgets over the next decade.

At the same time that the need for future programs and services is predicted to escalate appreciably, the demand for services already may be outstripping availability in some states. In addition, with the new emphasis on fiscal constraint at the state and federal levels of government, it is difficult to imagine considerable new growth in special education support. (Despite reasonably substantial new growth in special education funding at the federal level through IDEA, this still constitutes only about 8 to 9 percent of total special education spending.) This suggests a continued restructuring of current programs in an effort to achieve greater efficiency (National Governors' Association and National Association of State Budget Officers, 1994).

These trends suggest a crossroad in special education policy. Current state interest in restructuring education is likely to continue to build, and will focus on efforts to

increase the effectiveness of, as well as to contain expenditures on, programs for children with disabilities. (Themes which are featured in reform proposals for New York.) If services are restructured, choices must be made about what changes should occur and which programs and services will be affected.

However, the current period of fiscal stress also presents opportunities. Several states are using this opportunity to look more closely at the effectiveness of programs and services with an eye towards pruning the least efficient while restructuring existing services for greater effectiveness. For example, some states, including New York, are examining the high cost of uniformly providing special education assessments to students with learning problems prior to the provision of support services. The challenge will be to balance the diverse education needs and rights of all students against limited financial resources.

III. Special Education Funding in New York

Many of the national trends discussed in the previous chapter are mirrored in New York and in the state's proposed policy interventions. This section of the paper deals specifically with current and proposed special education policy in New York. How does the state's current special education funding system fit into the larger picture of how we fund special education as a nation? In addition, the state has been pursuing special education finance reform over the past several years. How do these reform efforts correspond to the broader range of special education finance reform issues that have been described for the nation? The purpose of this section is to discuss the proposed restructuring of special education funding in New York to promote the objective of high learning standards for all students. Primarily, it will describe and discuss current special education funding provisions in the state as well as the proposed alternatives. To fully address the topic of restructuring special education funding in New York to promote the objective of high learning standards for all students, however, requires a secondary emphasis on what these learning standards are, how they are to be measured, who is to be included or excluded, how they are reported, and how districts are to be held accountable.

The Current System

■ Special Education Funding

As shown in Table 1, New York's base special education funding system falls into the category of a weighted pupil system based on student placement. As described in a recent state publication on aids and entitlements for schools, this system features two basic weights. These differential weights are for students in the following categories of funding:

- funding weight of 1.7 for students who have been determined to require placement for 60 percent or more of the school day in a special class

- funding weight of 0.9 for students who have been determined to require placement for at least 20 but less than 60 percent of the school day, or who require direct or indirect consultant teacher services at least 2 hours per week

The funding associated with this formula is wealth adjusted such that the state's share of funding is 49 percent for the district of average wealth, with poorer districts receiving a greater share and richer districts a lesser share.

As described above, a general concern associated with funding systems in which allocations vary according to student placement is that they may provide fiscal

incentives for more restrictive placements. For example, the state's current system allocates nearly twice as much in supplemental funding (weight of 1.7) for students who spend the majority of their day in separate special education classes in relation to special education students spending less time in special settings (weight of 0.9). Such formulas are increasingly being considered as too prescriptive in regard to how services will be provided and to create a fiscal disincentive for full compliance with the LRE provisions of IDEA.

In New York, it has been pointed out that these placement weights are not necessarily restrictive. For example, a spokesperson for the New York State United Teachers (NYSUT) reports that in addition to spending up to 60 percent of the day in a special education class, a student may also generate this higher funding weight services through the provision of special education services in a general education class for up to 60 percent of the school day (e.g., through the provision of a one-on-one aide). However, this respondent also concedes that this is unusual, and that the NYSUT is working with the Department of Education regarding the appropriate method of writing IEPs to ensure that students receiving special education services in general education classrooms generate appropriate funding weights. While the current New York system may not necessitate more restrictive placements to obtain higher levels of funding, given the wording currently associated with these weights, it may bolster old habits at the local level favoring more restrictive placement models.

While there is debate about the incentives in the current system and the extent to which they actually govern placement decisions, statistics regarding student placement comparing New York to the nation show placements to be comparatively restrictive in the state. According to a recent internal State

Education Department document on special education reform, during the 1995–96 school year 34.5 percent of school-age students with disabilities spent more than 60 percent of their day in separate classrooms as compared to the 1993–94 national average of 22.7 percent. This same publication further contends that the current system "provides a fiscal incentive to place students in restrictive environments."

This type of funding system and the resulting patterns of student placement, which appear to be substantially more restrictive than the national average, also raise questions as to whether the current state funding system will be likely to be found in violation of new federal provisions under the reauthorized IDEA. As described above, states are required to demonstrate that if the state special education funding formula distributes assistance to localities based on the type of setting in which a child is served (as is true for the New York's current system), the state has policies and procedures to assure that these funding provisions do not result in placements that violate the requirement that children with disabilities be served in the LRE. If such policies are not in place, the state must provide the Secretary with an assurance that it will revise the funding mechanism to ensure that it does not result in restrictive placements. Given the state's placement data in relation to the nation, it may be difficult for the state to establish that these funding provisions do not result in more restrictive placements, thus seemingly necessitating revision to the current mechanism if the state is to continue to participate in this federal program and to retain eligibility for federal special education aid.

■ Special Education Funding for Students with Severe Disabilities

Beyond the basic formula, however, a second special education funding mechanism is in place for students with severe disabilities. Under separate formulas, these students may qualify for public excess cost aid or for private excess cost aid. A special education student generates aid under the public excess cost formula when special education costs exceed the lesser of $10,000 or four times the approved operating expense per pupil. Private excess cost aid is available to districts with special education students enrolled in approved private schools and state schools (e.g., the New York State School for the Blind). The private excess cost contribution is based on the cost remaining after a required local district contribution is deducted from the approved tuition.

Separate funding formulas of this type for low incidence, more severe students often are equally, if not more, problematic than the base funding formulas in their propensity to create fiscal incentives for the placement of students with disabilities in more restrictive placements. Rather than a single funding system for students with disabilities, which generates funding for students based on their relative need for supplemental services or on some other basis, funding systems based on student placement, and particularly multiple funding systems based on varying categories of placement tend to be especially problematic in relation to the LRE requirement of IDEA. That this appears to be true of the New York formula is evidenced by data showing that 10.7 percent of the special education students in the state are served in separate settings (e.g., approved schools for students with disabilities) as compared to the national average of 4.4 percent of special education students in such placements.

■ Other Features of the Current State Funding System

A unique feature of the current system is the category of available funding known as Declassification Support Services Aid. This aid is intended to help defray the cost of providing additional pupil support for the first year in which a pupil moves from a special education program to a full-time general education program. This category of aid may be designed to somewhat mitigate the fiscal disincentives of moving children out of special education. A state and national problem is that once students are categorized as special education they most commonly are never declassified throughout their public school years. For example, in New York, only 5.8 percent of students with disabilities were declassified during the 1995–96 school year. However, as the amount of aid received under this category is based on the total number of children in the program rather than on the number of students declassified, it is not clear how effective these provisions to remove the disincentives for declassification are likely to be.

Another characteristic of the current state special education funding system is that funding is based on the number of students identified as special education. Although this does not set it apart from the vast majority of other state special education funding systems, it is a major point of distinction in contrast with the Regent's and Governor's reform proposals, which are largely based on total, rather than special education, enrollments. While it is perfectly reasonable on the one hand to have total special education aid based on the number of special education students served, as pointed out by the Regent's reform document and others, such systems provide a disincentive for attempting to build a supportive general education environment which reduces the need for referrals to special education.

Under special education head count funding systems, such school districts are likely to have their State Aid reduced. Thus, one important argument often cited in favor of census- or total enrollment-based funding systems is that they create fiscal incentives for serving students with mild special learning needs within the general education system. Evidence of the need for incentives to retain students within the state's general education system is found in a rapidly increasing statewide special education identification rate that has risen from 9.9 percent in 1992–93 to 11.1 percent in 1995–96.

■ High Learning Standards for Students with Disabilities

Statistics cited in the Department's publication on strategies for implementing special education reform suggest that high learning standards for students with disabilities are not currently uniformly in place. Students with disabilities were more likely to drop out of school than their nondisabled peers, and of those who completed school, only 4.4 percent received a Regent's diploma compared to 40 percent of all public high school graduates. This publication further describes a phenomenon whereby students with special needs show substantial declines in math as they progress through school.

Furthermore, state policies for excluding students with disabilities from statewide tests seem somewhat unclear. Although a Department spokesperson reported relatively few testing exemptions across the state, with an average participation rate of 91 to 92 percent of students with disabilities, it seems that the policies for allowing for such exclusions are largely determined by local authorities. The 8 to 9 percent of the special education students currently being excluded from the state's

assessment system is likely to include many students with disabilities, raising questions about the extent to which these students are fully included in the current system for measuring progress toward the state's learning standards.

The Proposed System

The state has been seriously considering special education finance reform over at least the past half dozen years. A number of alternative approaches to reform have been considered and current separate proposals for reform are being circulated for public consideration by the Regents and by the governor.

■ Special Education Reform Goals

The basic reform goals associated with these changes in fiscal policy have remained fairly constant and are well specified. As listed in the Department publication on Special Education Reform, they are:

1. *Eliminate unnecessary referrals to special education.*

2. *Assure that students unnecessarily placed, or who no longer need special education services, are returned to a supportive general education environment.*

3. *Hold special education services to high standards of accountability to improve results for all students with disabilities.*

4. *Assure that students with disabilities are educated in settings with their nondisabled peers to the greatest extent possible.*

5. *Provide mechanisms for school districts to develop support and prevention services.*

6. *Assure that school personnel and families have the knowledge and skills which will enable them to effectively assist students with disabilities in attaining high standards.*

The importance of a comprehensive and clearly articulated set of reform goals, as listed above, must be noted. A CSEF publication, *The Politics of Special Education Finance Reform in Three States* (Parrish and Montgomery, 1995), reports on three states — Oregon, Pennsylvania, and Vermont — that had been successful in their reform efforts. It concludes from these states' experiences the importance of tying fiscal reform to a larger set of program reforms and the need for clearly stated reform objectives.

Clearly stated reform objectives are critical to forming linkages between fiscal and program policy objectives. Careful examination of all of the fiscal policy and funding mechanism alternatives presented in the first section of this paper will reveal that they all contain incentives for one type of program practice over another. For example, pure census-based funding systems are said to be incentive-free because overall special education funding is unaffected by the number of students identified for special education or where they are placed for service. However, it can be argued that such policies create fiscal incentives to not identify students for special education and to place them in lower cost settings. Given the

fact that there is no such thing as an incentive-free formula, if fiscal and program policy are to be aligned, it is essential to clearly identify program goals prior to attempting to design the state's fiscal policy mechanisms.

New York has clearly stated its goals for reform, as listed above. What funding mechanisms have they designed to complement these reform goals and to what extent do they do so?

■ Special Education Finance Reform Strategies

The state's special education finance reform proposals are closely aligned with the recently enacted revisions to federal law under IDEA. This was true in many respects prior to the federal reauthorization, and the revisions contained in the latest proposals from the Regents make this even more true. Both are predicated on a full census count of students, rather than counts of special education students, both contain adjustment factors favoring higher poverty jurisdictions, and both feature a gradual phase-in period.

The Regents 1998–99 Special Education Finance Reform Proposal features the following strategies:

1. *A 100 percent increase in funding for support services and other alternatives for students experiencing learning difficulties.*

2. *A phased-in approach to basing special education aid on the bases of district enrollment and district poverty. A proposal for this phase-in is specifically described in an attachment to this paper.*

3. *Dramatic investment in general education support and prevention services in 1998–99 and continue increases in subsequent years.*

4. *Continuance of current laws for students with disabilities with excessively high costs in public schools, students with disabilities requiring summer programs, and students with disabilities educated in approved private special education schools.*

5. *Current year funding to provide additional state aid to school districts with newly enrolled high cost students with disabilities.*

6. *An evaluation of the effects of the new public excess cost formula and to ensure that the private excess cost requirements are consistent with federal least restrictive environment requirements.*

7. *A statewide training effort to provide special educators with the skills to educate students with disabilities in the least restrictive environment.*

■ Alignment of Proposed Funding Provisions and Reform Goals

For the most part, these provisions align well with the specified reform goals. Strengthened prevention and support services (strategy 1), accompanied with

proper training (strategy 7), should assist in eliminating unnecessary referrals to special education (goal 1). Although strategies 1 and 3, which call for increased investments in support and prevention services outside of education, appear to be largely the same, these additional funds should assist in assuring that special education students are returned to a supportive general education environment (goal 2) and should provide the desired mechanisms for support and prevention services (goal 6). Breaking the current link between placement and funding, as represented in the current student weighting formula (strategy 2) and the implementation of a statewide training effort to provide the skills needed to education students with disabilities in the least restrictive environment (strategy 7), should support the objective of having students with disabilities educated in settings with their nondisabled peers to the greatest extent possible (goal 4).

■ Gaps in Alignment

Where are the possible gaps between the specified goals and the proposed fiscal provisions? Primarily they appear to exist in two areas. First, and perhaps most important from the perspective of high learning standards for all students, is the lack of any clear connection between these funding proposals and the reform goal of high standards of accountability for results for all students with disabilities (goal 3). Second, the proposal to continue current laws as they pertain to private excess costs (strategy 4), may in many instances directly contradict the reform objective of educating students in settings with their nondisabled peers to the greatest extent possible (goal 4). The proposal to implement an evaluation plan of the effects of retaining these provisions in compliance with federal least restrictive environment

provisions (strategy 6) may be the state's way of attempting to balance the tension between finance reform proposal strategy 4 and reform goal 4.

■ The Need to Remove Fiscal Incentives for Restrictive Placements

As described above, separate funding systems for "students with disabilities with excessively high costs in approved private special education schools" appears to pose a threat to the goal of "assuring that students with disabilities are educated in settings with their nondisabled peers to the greatest extent possible." The proposed evaluation of this issue (strategy 6 above) is very likely to find that this is the case. Furthermore the retention of this dual system seems a likely target for future federal monitoring.

The problem is not the existence of a continuum of placements for students with disabilities, including separate public and private schools. However, incentives that favor placement in such systems, from a fiscal perspective, is a problem that may be found to conflict with federal law under IDEA, especially in its reauthorized form. The fundamental question that the state needs to address is that if a local school district finds that the most appropriate future placement of a student currently being served in a separate public or private facility is to return to local placement, will the local share of costs for this student rise? That is, would the state's current level of support for the child remain unchanged in the current year, and over time, if this level of funding is needed to appropriately serve the child in a local setting? Thus, while a continuum of placements is required by federal IDEA law, the state's funding mechanism should not favor more restrictive placements.

Placement decisions along the continuum of services must be based on the needs of the child, and available state funding for these services should be unaffected by these placement decisions. In the case of the state's excess cost formulas, the state will need to justify separate formulas for public versus private placements. State Department officials argue that the public excess cost formula is not restrictive because students can be served in any public placement — for example, in a fully supported inclusionary setting. However, as private settings are more restrictive, if the private excess cost formula provides more generous support than the public excess cost formula, it would appear to be out of compliance with federal law.

■ Accountability for Results for All Students with Disabilities

The first indication of a possible problem with this goal is in the way it is stated by the Department, "Hold special education to high standards of accountability for results for all students with disabilities." This type of statement may suggest a problem of perspective. Many reform advocates will argue that it is important to move away from the suggestion that special education is uniquely, or solely, responsible for the accountability of special education students. They emphasize the importance of, and need for, educating students with disabilities with their nondisabled peers (goal 4, stated above). To encourage the inclusion of students with disabilities into mainstream education programs means instruction geared to the same high learning standards that are being applied to all children. First of all, children with disabilities are students, and as such are the primary responsibility of general education, which must be held fully accountable for their learning performance.

Although it is believed, and a spokesperson for the Department describes, that it is a goal of the state to fully include special education students in the implementation of general education learning standards and accountability provisions, some of the particulars for achieving this important set of objectives may still be lacking.

For example, in emphasizing that the New York learning standards will indeed be intended for all, a Department spokesperson said that the goal will be for all students, including those with disabilities, to participate in challenging course work in support of these standards. It was reported that the Competency Examination that is currently taken by many students with disabilities will gradually be phased out and replaced by the Regents Examination. However, these objectives for fully including students with disabilities in the state assessment system may result in more questions than answers, for example, "Once we raise the bar, what will be the full impact on students with disabilities?" An NYSUT spokesperson comments that "the proposed change in high school graduation standards contains a phase-in over several years (unspecified) for reporting the scores of most, if not all, disabled students. (School districts do not know this yet, so they are still excluding students from testing or providing unnecessary testing accommodations.)"

These are difficult issues, and other states are undergoing similar struggles to arrive at answers. As described by Erickson (September 1997), "educational accountability asks the multifaceted question, 'Who must answer to whom, for what, and with what consequences?'" It is essential that the state deal with the concept of educational accountability at the level of detail that will be needed to truly make a difference for students with disabilities.

In addition, without concerted efforts to avoid it, raising of the bar may further swell special education roles, disenfranchising even more students from the high education standards that the state hopes to achieve for all. As noted by Allington and McGill-Franzen (1992) in reference to New York, it is often found that the greater the emphasis on high stakes accountability systems, the more likely that students with disabilities will be excluded from participation.

The NYSUT spokesperson concurs that "New York State's policies for excluding students from statewide tests seem unclear." School districts are required to publicly report the scores of all students except those excluded from the assessment system. Excluding a student can artificially raise the overall performance of a school, and in the age of public reporting, exclusion represents a needed, but unethical way to accomplish this goal. Without uniform rules for clearly defining and for limiting exclusion, comparisons among districts become increasingly suspect (Zlatos, 1994). As noted by Erickson:

> . . . the implications for students with disabilities appear even more serious: they face the prospect of lessened expectations and fewer opportunities to reach higher levels of performance. For results-based accountability systems, the maxim "out of sight, out of mind" has the ring of truth (September 1997).

New York is not alone in its need to deal with this problem. McGrew et al. (1992) found between 40 and 50 percent of students with disabilities being excluded from nationwide assessment efforts. Furthermore, in a followup study, Stancavage et al. (1996) found that 70 percent of the students excluded from the Trial State Assessment of fourth grade reading could have been tested. At the state level,

Erickson et al. (1995) found that state special education directors could estimate participation rates for special education students in less than 37 percent of the 133 statewide assessments in use across the states. In an attempt to rectify this situation, the states of Kentucky and Maryland now disallow the outright exclusion of students from assessments without clear justification, and require districts to publicly report their assessment exemption rates.

At the federal level, new legislation is increasingly holding schools accountable for the results of all children. For example, *Goals 2000* and the *Improving America's Schools* both require the inclusion of students with disabilities in related assessments. Similarly, the reauthorized IDEA requires states and districts to include students with disabilities in all large-scale assessment programs.

However, in New York, there are indications that students with disabilities have not been fully considered in the overall push to implement high standards for all students. For example, at least in the executive summary, the final report of the New York State Equity Study Group for Elementary, Middle, and Secondary Education makes relatively little mention of students with disabilities despite their charge to consider alternative forms of outcome equity for all students (January 1993). Rather than students with disabilities, the focus is almost exclusively on the special challenges facing students in poverty. However, issues relating to concerns about children being left behind and forgotten are likely to pertain in similar ways to the two populations.

It is also telling that a State Department publication, *Update on New York State's Overall Strategy for Raising Standards* (April 1997) contains little mention of students with disabilities. In at least one mailing of this publication, it is preceded by an

attachment titled, *Special Education*, also dated April 1997. This attachment also says very little about the degree to which, or in what ways, students with disabilities will be included under the state's new system for raising standards other than to raise the question if there might be ways to make accommodations.

Further cause for concern is found in the Department's draft publication, *New York State School Report Card for Example School in Example School District* (February 1998). Although the proposed report cards are to be commended in that they contain a new section that reports the performance of students with disabilities, it appears that the scores of such students still will be kept separate from their regular education counterparts, and most of the examples show more students being exempted than being given the test.

The State Department clearly expresses resolve around this issue. The Deputy Commissioner for Special Education describes the improvement of student results as the "cornerstone of New York State educational reform efforts." A number of ambitious goals have been set for students with disabilities, for example, considerable expansion of participation in the Regents examinations for graduation. This is laudable, but if these goals are to be realized, students with disabilities will need to be fully exposed to the state curriculum and included in the state assessment system from the beginning of their school years. All students with disabilities must participate in the state assessment system with modifications and adaptations when appropriate, or for a small number of children (e.g., 2 percent) through some form of alternative system. Results for students with disabilities should be reported separately by school, to allow comparative assessment of students as a group, and also be included in the overall scores reported for schools

and the district, to ensure that they are fully incorporated into the overall accountability system.

IV. Conclusion

While fiscal policies that conflict with reform goals can hinder program reform, it is important to recognize that changes in fiscal policy alone are insufficient to result in substantial program change. In New York, fiscal reform can support more inclusive placements and heightened learning standards for students with disabilities, but are likely to be insufficient alone to lead to the realization of these goals. States reporting the most success in coordinating program and fiscal reform emphasize the need for financial incentives, or at least the removal of disincentives, within the context of larger systemic reform.

Within the context of systemic reform, there has been clear recognition of the limitations of traditional accountability mechanisms. Especially in the categorical program areas, accountability checks have been more concerned with the legal use of funds than whether they are being used well. Monitoring based on procedure, rather than student performance, is only likely to be de-emphasized when accountability systems are devised and implemented that can clearly measure the extent to which the children for whom these dollars are intended are making clear and sufficient educational progress. The development of such results-based accountability systems may be among the most critical components in the design of future special education finance policy.

The special education finance reforms proposed for New York will provide more resources, and more flexibility in their use, for most of the state's school districts. In one respect this should assist students with disabilities to be more fully included in the state program for achieving high learning standards for all students. However, the proposal to maintain separate funding systems for certain students with more severe disabilities may work against this inclusion, especially in the case of fiscal incentives for private placements. In addition, until specific and clear provisions for the inclusion of all students with disabilities in the state assessment system are fully in place, these funding reforms alone are not likely to be sufficient to realize the goal of high learning standards for *all* students.

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